

July 7, 2003

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: D.T.E. 03-47, Boston Edison Company, Cambridge Electric Light Company,  
Commonwealth Electric Company, NSTAR Gas Company, Pension/PBOP  
Adjustment Mechanism Tariff Filing

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter is the prefiled, direct testimony of Robert J. Spear, Partner of PricewaterhouseCoopers LLP. Mr. Spear will be available for questions at the evidentiary hearings in this matter.

Thank you for your attention to this matter.

Sincerely,



Doris F. James  
EA to Robert J. Spear

Enclosure

cc: Service List

**PRICEWATERHOUSECOOPERS LLP**

**Direct Testimony of Robert J. Spear**

**Exhibit PwC-RJS**

**D.T.E. 03-47**

1   **Q.    Please state your name and business address.**

2    A.    My name is Robert J. Spear. My business address is One International Place,  
3           Boston, Massachusetts 02110.

4   **Q.    By whom are you employed, and in what capacity?**

5    A.    I am a partner with the national accounting firm of PricewaterhouseCoopers LLP  
6           (PwC).

7   **Q.    Please describe other positions you have held at PwC and your professional  
8           qualifications.**

9    A.    Since joining the firm in 1978 after graduating from the University of New  
10          Hampshire, I have held numerous positions with the firm (I joined Coopers &  
11          Lybrand in 1978, which merged with Price Waterhouse in 1998). I commenced  
12          my employment as a staff accountant and was promoted to higher levels of  
13          responsibility and authority over the years, and was admitted to the partnership in  
14          1988. I am a certified public accountant in the states of Massachusetts, New York,  
15          New Jersey, Maine, Rhode Island, Connecticut, and New Hampshire, and a  
16          member of the American Institute of Public accountants (AICPA).

17   **Q.    Have you previously testified before the Department of Telecommunications  
18           and Energy?**

19    A.    No.

20   **Q.    What is PwC's role with respect to NSTAR's financial statements?**

21    A.    We are the independent auditors of NSTAR. We have been engaged by the audit  
22          committee of the Board of Trustees of NSTAR to perform an audit of the financial  
23          statements of the Company. In addition to auditing the consolidated financial  
24          statements of NSTAR, we also audit the stand-alone financial statements of each  
25          of NSTAR's utility subsidiaries.

26   **Q.    What are your responsibilities regarding the audit of NSTAR's financial  
27           statements?**

28    A.    As the engagement partner, I have responsibility for the overall planning and  
29          execution of the audit. In that regard, I oversee a staff of approximately eight PwC  
30          accountants who are assigned to the engagement team. I have decision-making

1 authority as it relates to the resolution of accounting and auditing issues, and in  
2 the design and evaluation of audit tests.

3 **Q: For what purpose is your direct testimony being submitted?**

4  
5 A: The sole purpose of my testimony is to address specific questions regarding the  
6 accounting related to the Department's accounting order (D.T.E 02-78) and the  
7 accounting related to the Company's proposed reconciliation mechanism for  
8 pension / PBOP costs.  
9

10 **Q. Are you familiar with NSTAR's request to the Department of**  
11 **Telecommunications and Energy (the "Department") for an accounting**  
12 **order regarding pension and PBOP issues filed on November 27, 2002?**

13 A. Yes.

14 **Q. What was your involvement with that request?**

15 A. Management requested that we, as the Company's independent auditors, review  
16 and comment on the Company's draft accounting order, specifically focusing on  
17 the SFAS No. 71 implications of that filing.

18 **Q. Please describe, in general, the criteria that need to be met in order for a**  
19 **company to establish a regulatory asset under SFAS 71?**

20 A. Paragraph 9 of SFAS No. 71 *Accounting for the Effects of Certain Types of*  
21 *Regulation* sets forth the specific criteria that must be met for a regulated  
22 Company to establish a regulatory asset. Paragraph 9 states the following: "Rate  
23 actions of a regulator can provide reasonable assurance of the existence of an  
24 asset. An enterprise shall capitalize all or part of an incurred cost that would  
25 otherwise be charged to expense if both of the following criteria are met: (a) it is  
26 probable that future revenue in an amount at least equal to the capitalized cost will  
27 result from inclusion of that cost in allowable costs for rate-making purposes; (b)  
28 based on available evidence, the future revenue will be provided to permit  
29 recovery of the previously incurred cost rather than to provide for expected levels  
30 of similar future costs. If the revenue will be provided through an automatic rate-  
31 adjustment clause, this criterion requires that the regulator's intent clearly be to  
32 permit recovery of the previously incurred cost."

1   **Q.   Please describe the factors you generally consider to determine the**  
2   **probability that a regulatory asset will ultimately be recovered from the**  
3   **Company's customers?**

4   A.   Factors that are generally considered to determine the probability that a regulatory  
5   asset will ultimately be recovered from a Company's customers include: (a)  
6   management's position with respect to whether an incurred cost is probable of  
7   recovery from customers in the future, (b) regulatory principles established by law  
8   and the opinion of the Company's external rate counsel, (c) regulatory history  
9   within a particular jurisdiction, (d) possible intervener activity to block recovery  
10   (and the nature of such activity) (e) materiality of the cost to be deferred, (f)  
11   impact of the deferral on customers, and (g) political environment.

12   **Q.   Specifically, what factors did you consider in concluding that NSTAR was**  
13   **not required to record a charge to Other Comprehensive Income/Loss at**  
14   **December 31, 2002?**

15   A.   The factors that were considered in concluding that NSTAR was not required to  
16   record a charge to Other Comprehensive Income/Loss at December 31, 2002 are  
17   as follows: (a) the Company's receipt of an accounting order (D.T.E. 02-78) that  
18   was interpreted by the Company as an indication of the intent of the Department  
19   to provide the Company full recovery of all pension and post-retirement expenses  
20   (including those costs associated with the Company's additional minimum  
21   pension liability as of December 31, 2002) subsequent to the effective date of the  
22   Department's accounting order in D.T.E. 02-78; (b) receipt of a legal opinion  
23   from the Company's outside rate counsel which stated that such pension and post-  
24   retirement expenses were probable of recovery in the future from customers and  
25   that the Company had a legal right to recover such costs; and (c) representation  
26   from management in connection with our audit of the Company's financial  
27   statements as of and for the year-ended December 31, 2002 specifying that  
28   management believed recovery of such deferred pension costs was probable, and  
29   that management intended to file for recovery of such costs within a reasonable  
30   period of time.

31   **Q.   In your view, if the Department had not granted NSTAR's request for an**  
32   **accounting order in 2002, and absent any facts and circumstances that would**  
33   **have otherwise supported a regulatory asset under SFAS No. 71, what would**  
34   **have been the consequences for NSTAR's 2002 financial statements?**

35   A.   In the situation cited, we believe that it would have been reasonable to conclude  
36   that such costs were not probable of recovery from customers and that the

1 Company would have been required to take a charge to Other Comprehensive  
2 Income/Loss for its full additional minimum pension liability adjustment (net of  
3 applicable income taxes).

4 **Q. In view of the accounting order, what other factors will you consider to**  
5 **determine whether the Company can continue to carry the regulatory asset**  
6 **on its balance sheet and avoid such a charge to equity this year?**

7 A. All evidence obtained and factors considered in connection with our evaluation of  
8 the Company's decision to establish its pension regulatory asset as of December  
9 31, 2002 would need to be reviewed again in connection our audit of the  
10 Company's financial statements for the year-ended December 31, 2003. The  
11 factors that would be considered, in addition to the requirements under paragraph  
12 9 of SFAS No. 71, include: (a) management's views as to whether such costs  
13 remain probable of recovery, (b) if applicable, management's intent to file on a  
14 timely basis with the Department for a full rate proceeding with a true-up  
15 mechanism, (c) the intent or leanings of the Department, (d) the nature of any  
16 challenges to recovery by third-party interveners (e.g., the MA Attorney General),  
17 (e) views of the Company's rate counsel as to whether they believe such costs  
18 remain probable of recovery, and (f) any other facts or circumstances existing at  
19 the time the accounting is being assessed, including the status of this proceeding.

20 **Q. Have you read the Pension/PBOP Adjustment Mechanism that NSTAR has**  
21 **proposed in this case?**

22 A. Yes. We have read the Pension/PBOP adjustment mechanism as proposed by  
23 NSTAR and described in the direct testimony of James J. Judge in Exhibit  
24 NSTAR-JJJ of D.T.E. 03-47.

25 **Q. Would the approval of these tariffs by the Department permit NSTAR to**  
26 **continue to carry the regulatory assets described above?**

27 A. Although we have not audited nor expressed an opinion on the aforementioned  
28 Pension/PBOP adjustment mechanism, our understanding is that it is constructed  
29 to recover all pension expense previously deferred as a regulatory asset as of  
30 December 31, 2002 as well as the excess of Pension/PBOP expense over amounts  
31 currently recovered in rates subsequent to the effective date of the Department's  
32 accounting order in D.T.E. 02-78. Based on this understanding, we believe that  
33 approval of these tariffs by the Department will permit the Company to continue  
34 to carry the regulatory assets described above.

1   **Q.   In general, what are the elements you look for in a rate mechanism to permit**  
2   **regulatory asset treatment?**

3   A.   The elements that we look for in a rate mechanism to permit regulatory asset  
4   treatment are as follows: (a) the mechanism needs to provide for the recovery of  
5   all previously deferred costs (pension amounts deferred as of December 31, 2002  
6   as well as additional Pension/PBOP expense deferred subsequent to the effective  
7   date of the Department's accounting order in D.T.E. 02-78), (b) the mechanism  
8   commences recovery of such deferred costs within a reasonable period of time,  
9   and (c) the mechanism provides for the full recovery of such costs over a  
10   reasonable period of time.

11   **Q.   Are these elements present in the mechanism that NSTAR has proposed in**  
12   **this case?**

13   A.   Yes. Based on our understanding and interpretation of the proposed mechanism,  
14   we believe those elements are present.

15   **Q.   Will the timing of the Department's order regarding NSTAR's proposed rate**  
16   **adjustment mechanism impact your conclusion on the Company's ability to**  
17   **record a regulatory asset related to pension and PBOP costs as of December**  
18   **31, 2003?**

19   A.   Yes. Assuming the Department approves the order as currently constructed, we  
20   would expect recovery of those pension and post-retirement costs previously  
21   deferred to commence and be recouped within a reasonable period of time. If the  
22   Department elects to not accept the proposed reconciliation mechanism and, as a  
23   result, NSTAR is requested to file for a full rate case, we would expect that  
24   NSTAR would make such a filing in the near term (and no later than the  
25   Company's deadline to file its Form 10-K for the year-ended December 31,  
26   2003).

27   **Q.   When would it be necessary for NSTAR to receive Department approval of**  
28   **the proposed mechanism?**

29   A.   As stated in our previous response, if the Department elects to not accept the  
30   proposed reconciliation mechanism (we understand a ruling is expected by  
31   October 1, 2003) and requests the Company to file a full case, we would expect  
32   the Company to file a full rate case prior to the time it files its Form 10-K for the  
33   year ended December 31, 2003. We would also expect that the Department would  
34   respond to such a filing pursuant to existing statutory requirements.

1 **Q. What are the potential consequences if NSTAR does not receive approval of**  
2 **the proposed reconciliation mechanism?**

3 A. There are two potential consequences if NSTAR does not receive approval of the  
4 proposed reconciliation mechanism within a reasonable period of time. Those  
5 potential consequences are as follows: (1) If NSTAR files for a full rate case  
6 within a reasonable period of time, and based on the facts and circumstances as  
7 evaluated as of the Company's financial statement measurement dates (i.e.,  
8 September 30, 2003, December 31, 2003, etc.) it is determined that those pension  
9 and post-retirement costs previously deferred are still probable of recovery as  
10 determined under paragraph 9 of SFAS No. 71, then there will not be any  
11 financial impact to the Company as a result of not receiving approval of the  
12 proposed reconciliation mechanism. (2) On the other hand, if NSTAR does not  
13 file for a full rate case within a reasonable period of time, or based on the facts  
14 and circumstances as evaluated as of the Company's financial statement  
15 measurement dates, it is determined that those pension and post-retirement costs  
16 previously deferred are not probable of recovery as determined under paragraph 9  
17 of SFAS No. 71, then as a result of not receiving the reconciliation mechanism,  
18 the Company will be required to write-off those pension and post-retirement costs  
19 previously deferred as an adjustment to both Other Comprehensive Income  
20 (Equity) and Pension/PBOP Expense, as appropriate.

21 **Q. Does this conclude your testimony?**

22 A. Yes.